

Message Text

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ACTION AF-10

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AMEMBASSY TOKYO
AMCONSUL BUKAVU POUCH
AMCONSUL LUBUMBASHI

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 3530

E.O. 11652: GDS
TAGS: EFIN, CG
SUBJECT: EXECUTIVE COUNCIL UNVEILS NEW ELEMENTS OF MOBUTU PLAN

1. SUMMARY: FOLLOWING THE APRIL 7 MEETING OF THE EXECUTIVE COUNCIL,

CHAired BY PRESIDENT MOBUTU, THE SATURDAY PRESS REPORTED NEW GOVERNME
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ECONOMIC AND ADMINISTRATIVE INITIATIVES IN A FURTHER ELABORATION OF T
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"MOBUTU PLAN." ON THE FINANCIAL SIDE, THE COUNCIL ANNOUNCED AN AMBIT
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1978 INVESTMENT BUDGET OF 300 MILLION ZAIRES, WHICH WILL BE ACCOMPANI
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HOWEVER, BY TIGHTER BUDGETARY CONTROLS. THESE WILL INCLUDE MORE VIGO
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COLLECTION OF TAXES AND STRICTER SUPERVISION OF GOVERNMENT INVESTMENT
EXPENDITURES. WITH RESPECT TO COMMERCIAL POLICY, THE COUNCIL ANNOUNC
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MAJOR REVISIONS IN ZAIRE'S IMPORT REGIME AND SYSTEM OF FOREIGN EXCHAN

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ALLOCATION DESIGNED PRIMARILY TO HELP THE AGRICULTURAL SECTOR. THE NEW FINANCIAL AND COMMERCIAL POLICIES ARE TO BE COMPLEMENTED BY ADMINISTRATIVE REFORMS TO IMPROVE COORDINATION AMONG GOVERNMENT MINISTRIES AND PARASTATAL ORGANIZATIONS. THE COUNCIL ALSO WELCOMED THE UPCOMING VISIT OF THE IMF STABILIZATION TEAM AND EXPRESSED CONFIDENCE THAT A NEW BASIS FOR COOPERATION WOULD BE ESTABLISHED WITHIN THE BROADER CONTEXT OF THE MOBUTU PLAN. AT THE SAME TIME, THE COUNCIL HAS RULED OUT IN ADVANCE ANY DEVALUATION OF THE ZAIRE FOR THE "DURATION OF THE MOBUTU PLAN." NUMEROUS POINTS REMAIN TO BE CLARIFIED. HOWEVER, THE NEW MEASURES APPEAR TO BE A MAJOR EFFORT TO INSTITUTE ECONOMIC REFORMS IN CONNECTION WITH THE MOBUTU PLAN. AT THIS STAGE, OUR ONLY RESERVATION IS WHETHER OR NOT SPECIFIC MEASURES, SUCH AS THE AMOUNT OF THE DEVELOPMENT BUDGET AND NO DEVALUATION PLEDGE, HAVE BEEN CLEARED WITH THE IMF. IF NOT, THEN THE GOZ MAY BE FACED WITH DIFFICULTIES IN NEGOTIATING A NEW IMF STANDBY. END SUMMARY.

2. THE EXECUTIVE COUNCIL ANNOUNCED A NUMBER OF IMPORTANT FINANCIAL, COMMERCIAL, AND ADMINISTRATIVE REFORMS AT ITS APRIL 7 MEETING. CHIEF AMONG THE FINANCIAL RECOMMENDATIONS WAS A PROPOSED 1978 INVESTMENT BUDGET OF APPROXIMATELY 300 MILLION ZAIRES. THIS REPRESENTS AN EIGHTFOLD INCREASE OVER THE Z35 MILLION BUDGETED FOR CONFIDENTIAL

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1977, AND AN INCREASE OF 525 PERCENT OVER THE Z57 MILLION ACTUALLY SPENT IN THE FIRST NINE MONTHS OF 1977. INVESTMENT PROJECTS NOT SPECIFIED IN THE MOBUTU PLAN OR FUNDED FROM BILATERAL/MULTILATERAL ASSISTANCE PROGRAMS HAVE BEEN DROPPED. ALREADY EXISTING PROJECTS WILL NEED POSITIVE APPROVAL FROM THE DEPARTMENT OF PLANNING BEFORE THEY CAN RECEIVE ADDITIONAL FUNDING FROM THE GOZ. ALTHOUGH THESE

PROJECTS WILL BE FUNDED BY ADVANCES FROM THE CENTRAL BANK, THESE EXPENDITURES OF PUBLIC FUNDS WILL BE STRICTLY CONTROLLED.

3. THE PRESS HIGHLIGHTED THE GOZ'S DECISION NOT TO DEVALUE THE CURRENCY FOR THE "DURATION OF THE MOBUTU PLAN," THIS BEING A HEADLINE FOR THE ARTICLES APPEARING IN BOTH DAILY PAPERS.

4. THE COUNCIL ALSO DECIDED TO CREATE A SPECIAL INTERAGENCY COMMITTEE (MEMBERS TO BE DRAWN FROM THE DEPARTMENTS OF FINANCE, PLANNING AND PORTFOLIO, THE OFFICE OF THE PRESIDENT, AND THE CENTRAL BANK TO OVERSEE THE FINANCIAL MANAGEMENT OF GECAMINES, THE STATE-OWNE

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COPPER MINING COMPANY, AND COORDINATE ITS FINANCIAL REQUIREMENTS MORE CLOSELY WITH THOSE OF THE COUNTRY AS A WHOLE.

5. WITH RESPECT TO COMMERCIAL POLICY, THE EXECUTIVE COUNCIL
ANNOUNCED STRICTER CONTROLS OVER THE LEVEL AND COMPOSITION OF
IMPORTS:

--EFFECTIVE APRIL 1, ALL IMPORTS MUST BE COVERED BY IMPORT
LICENSES, WHETHER FINANCED FROM OFFICIAL OR PRIVATE
FOREIGN EXCHANGE, RESOURCES, AND INCLUDING ITEMS IMPORTED SAD
(WITHOUT FOREIGN CURRENCY ALLOCATION). FURTHERMORE, ALL IMPORTE
RS
MUST NOW OBTAIN A "CERTIFICAT D'HONORABILITE" FROM THE
DEPARTMENT OF FINANCE IN ORDER TO HAVE IMPORT LICENSES
VALIDATED AT THE CENTRAL BANK. (COMMENT: WE ASSUME
THAT REQUIREMENT FOR A CERTIFICATE IS INTENDED TO INSURE
BETTER TAX COLLECTION.)

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--AN INVENTORY OF KEY ECONOMIC SECTORS AND ENTERPRISES AND
THEIR RAW MATERIAL AND SPARE PART REQUIREMENTS IS TO BE
DRAWN UP. (COMMENT: SEVERAL LOCAL BUSINESSES HAVE ALREADY
BEEN APPROACHED BY NATIONAL ECONOMY TO DRAW UP A LIST OF
THEIR BASIC IMPORT REQUIREMENTS.)
--THE DEPARTMENTS OF NATIONAL ECONOMY AND HEALTH WILL IN
TURN COMPILE A LIST OF ESSENTIAL FOOD AND PHARMACEUTICAL
IMPORTS.
--A SYSTEM OF GUARANTEED MINIMUM FOREIGN EXCHANGE ALLOCATIONS
FOR INDUSTRY WILL BE INTEGRATED INTO THE CENTRAL BANK'S EXISTING
SYSTEM OF MONTHLY FOREIGN EXCHANGE ALLOTMENTS.
THE COUNCIL ALSO ANNOUNCED PLANS TO DRAW UP A DEFINITIVE PROGRAM
FOR THE LIQUIDATION OF COMMERCIAL CREDIT ARREARAGES AND TO ESTABLISH
NEW GUIDELINES FOR REPATRIATION OF PROFITS.

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C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 3530

5. TO INCREASE DOMESTIC AGRICULTURAL PRODUCTION AND EXPORTS, THE COUNCIL HAS DECIDED TO:

- INCREASE THE PRICES PAID TO FARMERS FOR THEIR PRODUCTION, ESPECIALLY OF CORN, RICE, AND MANIOC;
- INSTRUCT THE DEPARTMENT OF RURAL DEVELOPMENT TO MAKE A SURVEY OF FOOD PRODUCTION BY REGION SO THAT THE DEPARTMENTS OF ENERGY AND PUBLIC WORKS CAN BETTER ALLOCATE FUEL RESOURCES AND SUPPORT AGRICULTURAL EXPANSION;
- CONCLUDE "AGREEMENTS FOR EXPANSION" WITH THE MAJOR TOBACCO COMPANIES, BREWERIES, RICE AND FLOUR MILLS. (COMMENT: THE IDEA OF BACKWARD INTEGRATING THESE PARTICULAR BUSINESSES INTO RAW MATERIALS PRODUCTION HAS BEEN RAISED NUMEROUS TIMES

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IN CONNECTION WITH THE "MOBUTU PLAN" AND RECENTLY SERVED AS A JUSTIFICATION FOR ALLOWING AN INCREASE IN THE SELLING PRICE OF BEER AND CIGARETTES.); AND

- BRING INTO LINE THE MINIMUM EXPORT PRICE MECHANISM FOR COFFEE AND COFFEE EXPORT TAXES IN ORDER TO ENCOURAGE PRODUCTION AND THE REPATRIATION OF FOREIGN EXCHANGE.

6. THE MAJOR ADMINISTRATIVE REFORMS PROPOSED BY THE EXECUTIVE COUNCIL INCLUDE THE ELIMINATION OF CERTAIN, AS YET UNSPECIFIED, GOVERNMENT OFFICES AND THE CREATION OF NEW "ADMINISTRATIVE COUNCILS" TO RUN THE PARASTATALS, WITH THE EXCEPTION OF GECAMINES, THE CENTRAL BANK, ONATRA, AND SNCZ WHICH ALL WILL HAVE "SPECIAL" ADMINISTRATIVE STRUCTURES. THE MEMBERS OF THE ADMINISTRATIVE COUNCILS WILL BE NAMED BY THE PRESIDENT.

7. THE EXECUTIVE COUNCIL ALSO WELCOMED THE UPCOMING VISIT OF A NEW IMF TEAM AND EXPRESSED CONFIDENCE THAT AGREEMENT ON A NEW THREE-YEAR STABILIZATION PLAN (1978-1980) WOULD BE REACHED. THE COUNCIL STRESSED THAT SUCH A PLAN SHOULD BALANCE THE SHORT-TERM

REQUIREMENT OF FINANCIAL STABILIZATION WITH THE LONGER-TERM GOAL OF ECONOMIC RECOVERY ESTABLISHED IN THE MOBUTU PLAN.

8. COMMENT: AS IS USUALLY THE CASE IN ZAIRE, THIS LATEST EXECUTIVE COUNCIL STATEMENT IS IN GENERAL TERMS. SPECIFIC DETAILS AS TO HOW VARIOUS PROPOSALS ARE TO BE IMPLEMENTED HAVE NOT YET BEEN ANNOUNCED. IN GENERAL, THOUGH, WE BELIEVE THAT THE NEW MEASURES CONSTITUTE A MAJOR EFFORT TO INSTITUTE ADMINISTRATIVE AND OTHER ECONOMIC REFORMS IN CONNECTION WITH THE MOBUTU PLAN. ALTHOUGH MANY QUESTIONS REMAIN TO BE ANSWERED, OUR ONLY RESERVATION AS OF NOW ABOUT THE NEW MEASURES IS WHETHER OR NOT THEY HAVE BEEN CLEARED, OR AT LEAST DISCUSSED, WITH THE IMF. IF SUCH IS NOT THE CASE, THE NO DEVALUATION PLEDGE AND GREATLY INCREASED DEVELOPMENT BUDGET COULD PRESENT MAJOR DIFFICULTIES IN THE FORTHCOMING NEGOTIA-
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TIONS WITH THE IMF CONCERNING A NEW STANDBY AGREEMENT. SPECIFIC OBSERVATIONS CONCERNING THE NEW MEASURES FOLLOW:

(A) THE NEW GOZ POLICIES CONSTITUTE A SECOND MAJOR EFFORT WITHIN A MONTH TO DEFINE THE MOBUTU PLAN IN MORE CONCRETE TERMS. THE FIRST OCCURRED DURING THE MARCH 13-17 MEETING OF THE IBRD CONSULTATIVE GROUP ON AGRICULTURE WHEN THE GOZ DETAILED THE SPECIFIC AGRICULTURAL GOALS OF THE MOBUTU PLAN. INDEED, THE LATEST PROPOSALS FOR AGRICULTURE REFLECT A NUMBER OF THE DONOR COUNTRY CRITICISMS AIRED AT THE EARLIER CONSULTATIVE GROUP MEETING.

(B) AN INVESTMENT BUDGET OF 300 MILLION ZAIRES REPRESENTS A SIGNIFICANT INCREASE OVER 1977 APPROPRIATIONS OF 35 MILLION ZAIRES (1975 AND 1976 APPROPRIATIONS WERE Z157 MILLION AND Z143 MILLION RESPECTIVELY, ACTUAL EXPENDITURES WERE Z94 MILLION AND Z124 MILLION) AND AS SUCH COULD PRESENT A PROBLEM IN FUTURE NEGOTIATIONS WITH THE IMF STABILIZATION TEAM. THIS LARGE AN INVESTMENT BUDGET, HOWEVER, WOULD TEND TO CONFIRM EARLIER REPORTS THAT THE GOZ PLANS A Z1 BILLION TOTAL BUDGET FOR 1978, WITH A BUILT-IN DEFICIT OF OVER Z300 MILLION.

(C) TIGHTER CONTROL OVER IMPORTS AND FOREIGN EXCHANGE ALLOCATIONS COULD HAVE A SALUTARY BUDGETARY AND BALANCE OF PAYMENTS IMPACT IF EFFECTIVELY IMPLEMENTED; HOWEVER THIS MAY WELL REQUIRE THE INTRODUCTION OF OUTSIDE EXPERTS IN ORDER TO SUCCEED.

(D) THE GOZ'S DECISION NOT TO DEVALUE FOR THE "DURATION OF THE MOBUTU PLAN" MAY REPRESENT AN ATTEMPT TO PREEMPT AN ISSUE THAT WOULD NO DOUBT BE RAISED IN UPCOMING NEGOTIATIONS WITH THE IMF. IT MAY ALSO BE A SMOKE SCREEN TO PLACE BLAME FOR A POSSIBLE DEVALUATION SQUARELY ON THE SHOULDERS OF THE IMF. ANOTHER POSSIBILITY IS THAT THE GOZ WISHED TO THROW SPECULATORS OFF BALANCE, AS RUMORS OF DEVALUATION HAVE BEEN CURRENT FOR SEVERAL MONTHS AND HAVE HAD A DAMPENING EFFECT ON COFFEE AND OTHER EXPORTS.

(E) FINALLY, IT IS INTERESTING TO NOTE THAT THOSE STATE ENTERPRISES NOT TO BE HEADED BY ADMINISTRATIVE COUNCILS ALL EITHER HAVE OR ARE ABOUT TO HAVE EXPATRIATES AS THEIR CHIEF ADMINISTRATIVE

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